



HOME BUILDERS ASSOCIATION OF CONNECTICUT, INC.
1245 FARMINGTON AVENUE, 2nd Floor, WEST HARTFORD, CT 06107
Tel: 860-521-1905 Fax: 860-521-3107 Web: www.hbact.org

*Your Home
Is Our
Business*

February 25, 2010

To: Senator Tom Colapietro and Representative Jim Shapiro, Co-Chairs, and
members of the General Law Committee

From: Bill Ethier, CAE, Chief Executive Officer

Re: RB 5221, AAC the Registration of Appraisal Management Companies

The HBA of Connecticut is a professional trade association with 1,100 member firms statewide, employing tens of thousands of Connecticut citizens. Our members are residential and commercial builders, land developers, home improvement contractors, trade contractors, suppliers and those businesses and professionals that provide services to our diverse industry. We estimate that our members build 70% to 80% of all new homes and apartments in the state.

We note for your information two other bills dealing with appraisal management companies and the licensing of appraisers: SB 13 in the Insurance & Real Estate Committee, and SB 288 in the Banks Committee.

RB 5221 is very similar to RB 13, and we offer to you as general background on the issue of appraisal management companies our attached testimony provided to the Insurance & Real Estate Committee on SB 13.

As noted there, this is an important issue and the competency of all appraisals must be ensured to improve the viability of real estate transactions for all, lenders, sellers and buyers. We urge you to coordinate your efforts with the Insurance & Real Estate Committee.

Thank you.

Attachment (HBA of CT testimony on RB 13)



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February 16, 2010

To: Senator Joseph Crisco and Representative Steve Fontana, Co-Chairs, and
members of the Insurance & Real Estate Committee

From: Bill Ethier, CAE, Chief Executive Officer

Re: RB 13, AAC Real Estate Appraisal Management Companies

The HBA of Connecticut is a professional trade association with 1,100 member firms statewide, employing tens of thousands of Connecticut citizens. Our members are residential and commercial builders, land developers, home improvement contractors, trade contractors, suppliers and those businesses and professionals that provide services to our diverse industry. We estimate that our members build 70% to 80% of all new homes and apartments in the state.

We support the intent of RB 13 to provide the public greater assurance that the critically important function of real estate appraisals, when done through appraisal management companies, is done with a high level of competency.

Home builders have experienced severe lending issues as a result of the financial collapse and restructuring that has taken place in our economy. We testified before a joint invitational hearing of the Banks and Commerce Committees last December to highlight the issues our members have faced. This testimony can be found on our home page at www.hbact.org. We do not want to paint with a broad brush but some of these credit crisis issues relate to poor appraisals conducted through appraisal management firms.

The common complaint has been that some management companies hire appraisers from outside the area where a new home has been built and sold and is ready to close. Such appraisers may not be familiar with a municipality, let alone a particular neighborhood, and nonsensical appraisals result in lost sales. The cramming down of appraisal fees paid to certain appraisers and the demand for very quick turn-around may also result in the use of poor comparables and a "rushed" job, producing poor appraisals. Nationally, we have urged better guidance be sent out regarding the HVCC rules (or amendments to same) to all parties so that reasonable, permissible and necessary conversations and information exchange can take place between appraisers and interested parties to a transaction. State governments can also do their part to address these issues.

As sellers of new homes and, therefore, very interested consumers of real estate appraisals, we have participated in discussions with the CT Chapter of the Appraisal Institute, the CT Association of Realtors, CT Bankers Association and appraisal management firms over this bill. **At this point, we are comfortable with the direction being taken with the group's negotiations and potential amendments to the bill's language, but reserve comment until we see final language.**

We believe that the registration of appraisal management companies is necessary to ensure accountability to the citizens of Connecticut. Appraisal management companies may be domiciled anywhere and many are not located here even though they engage appraisers here. Registration would at least help to identify such firms and create a framework to hold firms and the appraisers with whom they contract accountable, again for high level of appraisal competency.

To achieve the accountability desired, minimal regulation through clear, objective standards may be necessary to accompany registration. For example, familiarity with the neighborhood of a property should be a minimum requirement to conduct an appraisal. Familiarity with the extent, scope of and reasons for each distressed or foreclosed property in specific neighborhoods and appropriate adjustments to same should be required before using such properties as comparables. To the extent such requirements are already a part of the regulation of licensed appraisers, that's great. To the extent they are not, that needs to be fixed. Appraisal management companies should also internally enforce such rules on the appraisers they hire or be subject to losing their registration to do business in this state.

Having said the above, we strongly urge you to keep regulations to a minimum necessary to ensure a high level of competency of all appraisals. **We do not support the requirement for appraisal management firms to conduct market surveys on pricing.** To our knowledge, such surveys are not required of any other business and could subject the appraisal process to much unnecessary discussion and possible liability or enforcement over survey methods. The expense of conducting such surveys is an unnecessary added cost to real estate transactions.

Frankly, we are not interested in the market share or fee disputes between independent appraisal firms and appraisal management companies. We just want all appraisals to be done competently. **As an alternative to the survey and market rates language of RB 13,** a much better way to address fee issues is to make the cost of appraisals more transparent so that all parties who order an appraisal or are affected by an appraisal understand the actual cost of the appraisal. This can be accomplished by simply requiring appraisers to note on each appraisal the price they were paid for that appraisal. The free market and competition would then take over to stabilize prices at a level that works for appraisers, appraisal management companies, bankers, sellers, buyers and borrowers.

The legislation needs to clarify several other provisions and we await language to be offered by the other interests. For now, we urge your support of RB 13 with the caveats noted above and your consideration of compromise language we trust is forthcoming.

Thank you for the opportunity to comment on this legislation.